Himax Technologies, Inc. Q3 2013 Unaudited Financials and Investor Update Call

Conference Details:	Participant Dial-In Numbers:
Confirmation #: 13572586 Call Length: 1 hour Lines: 100 Conference Date: 11/07/13 Conference Start Time: 8:00 a.m. Eastern Standard Time Pre-Record Message: No Moderator: JOHN MATTIO	TOLL-FREE 1-877-407-4018 TOLL/INTERNATIONAL 1-201-689-8471 CONFERENCE ID: 13572586
Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu and Jackie Chang): TOLL-FREE 1-877-407-4021 TOLL/INTERNATIONAL 1-201-689-8472	**Replay Dial-In Numbers:** TOLL-FREE 1-877-870-5176 TOLL/INTERNATIONAL 1-858-384-5517 From: 11/07/13 Eastern Standard Time To: 11/14/13 at 11:59 p.m. Eastern Standard Time Replay Pin Number: 13572586

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's third quarter 2013 earnings call. Joining us from the company are Mr. Jordan Wu, President and Chief Executive Officer, and Ms. Jackie Chang, Chief Financial Officer. After the company's prepared comments, we have allocated time for questions in a Q&A session. If you have not yet received a copy of today's results release, please call MZ Group at 212-301-7130, or access the press release on financial portals like

Bloomberg, Yahoo or Google or you can download a copy from Himax's website at www.himax.com.tw.

Before we begin the formal remarks, I'd like to remind everyone that some of the statements in this conference call, including statements regarding expected future financial results and industry growth, are forward-looking statements that involve a number of risks and uncertainties that could cause actual events or results to differ materially from those described in this conference call. Factors that could cause actual results include, but are not limited to, general business and economic conditions and the state of the semiconductor industry; market acceptance and competitiveness of the driver and non-driver products developed by the Company; demand for end-use applications products; the uncertainty of continued success in technological innovations; and other operational and market challenges and other risks described from time to time in the Company's SEC filings, including those risks identified in the section entitled "Risk Factors" in its Form 20-F for the year ended December 31, 2012 filed with SEC as amended.

Except for the Company's full year of 2012 financials which were provided on the Company's 20-F, filed with the SEC, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with US GAAP. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and audit by independent auditors, to which we subject our annual consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. At this time, I would now like to turn the call over to Mr. Jordan Wu.

Jordan, the floor is yours…….

Q3 2013 Results

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for today's call. As usual, I will provide some preliminary review on our third quarter, then discuss our outlook for the fourth quarter of the year and then I will also comment on a few product areas of focus. Our CFO, Jackie Chang, will then provide additional details on our financial performance.

Our 2013 third quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met or exceeded our guidance. For the third quarter, we reported net revenues of $192.8 million with a gross margin of 25.3%. Third quarter GAAP earnings per diluted ADS were 7.2 cents and non-GAAP earnings per diluted ADS were 11.3 cents.

Our third quarter revenues of $192.8 million represented a 1.3% increase from $190.4 million in the third quarter of 2012 and a 6.8% decrease from $207.0 million in the previous quarter of this year. Notwithstanding the sequential decline, the third quarter revenues came in at the high end of our guidance mainly driven by better-than-expected sales of China smartphone market and also non-driver products.

Revenues from large panel display drivers were $57.7 million, down 24.7% from a year ago and down 10.3% sequentially. While large panel driver IC will continue to remain a major part of our sales, it accounted for just 29.9% of our total revenues for the third quarter, compared to 40.2% a year ago and 31.1% in the last quarter. The decrease was mainly a result of the global weakening demands of TV, laptop and monitor.

Sales for small and medium-sized drivers came in at $100.5 million, up 15.1% from the same period last year and down 9.4% sequentially. As a segment, driver ICs for small and medium-sized applications accounted for 52.1% of total revenues for the third quarter as compared to 45.8% a year ago and 53.6% in the previous quarter. This is the third consecutive quarter that our small and medium-sized driver sales accounted for over half of total revenues. The slowdown of smartphone and tablet markets was caused primarily by China market's overall inventory correction. However, the segment still delivered a solid year over year growth of 15.1%, driven by the sheer volume growth of and sales to the smartphone, tablet and automotive display applications.

Revenues from the non-driver businesses were $34.6 million, up 30.5% from the same period last year and up 9.2% sequentially. Non-driver product revenues accounted for 18.0% of total revenues, as compared to 14.0% a year ago and 15.3% in the previous quarter. Our non-driver product sales reached another record high in terms of both absolute value and percentage of total revenues. CMOS image sensors, video SOCs, touch panel controllers, power management ICs, LED drivers, and LCOS microdisplay were the main contributors to the growth of non-driver product segment. I will discuss more on some of these product areas a bit later.

Our GAAP gross margin for the third quarter of 2013 was 25.3%, a 200 basis point improvement from 23.3% a year earlier and a 70 basis point increase from 24.6% in the previous quarter. This is the eighth consecutive quarter of gross margin improvement and the highest gross margin level since the third quarter of 2008. The trend in our margin expansion is a direct result of improved product mix.

As an annual practice, we provide annual bonus compensation to employees at the end of September each year which always leads to a substantial increase in the third quarter GAAP operating expenses compared to the other quarters of the year. This year, the annual bonus compensation including Restricted Share Units, or RSUs, and cash payouts totaled $13 million, out of which $7.8 million was vested immediately and therefore expensed in the third quarter of 2013. Jackie will add more details on this later.

Our GAAP net income for the third quarter was $12.3 million, or 7.2 cents per diluted ADS, up from $10.4 million, or 6.1 cents per diluted ADS, for the same period last year, and was down from $19.4 million, or 11.2 cents per diluted ADS, in the previous quarter. GAAP net income grew 17.9% year over year and declined 36.6% from the previous quarter. The sequential decline was mainly due to the $7.8 million 2013 RSU charge in the third quarter. GAAP EPS per diluted ADS grew 16.7% from the same period last year and declined 36.4% over the previous quarter.

Excluding the share-based compensation and acquisition-related charges, non-GAAP net income grew 17.2% year over year and declined 3.8% sequentially, coming to $19.3 million, or 11.3 cents per diluted ADS. Despite the industry-wide slow season in the third quarter, we achieved bottom-line improvement thanks to gross margin expansion.

We are pleased with the financial performance of the third quarter 2013. We will continue to execute our strategy and remain excited about our future growth opportunities going forward.

Jackie Chang, our CFO, will now provide more details on our financial results. After Jackie's presentation, we will further discuss outlook for the fourth quarter of the year and our fourth quarter 2013 guidance.

Jackie……

Ms. Jackie Chang: Thank you, Jordan. I will now provide additional details for our third quarter financial results.

Our GAAP operating expenses were $34.3 million in Q3 2013, up 10.1% from a year ago and up 26.1% from the previous quarter. As Jordan pointed out, the significant sequential increase was caused by the $7.8 million 2013 RSU grant we have traditionally expensed in the third quarter. Excluding the RSU charge, our third quarter operating expenses were $26.5 million, up 6.4% from the same quarter 2012 and down 2.7% from the previous quarter. The increase from the previous year was related to higher salary expenses for additional headcount and our annual salary raise which took place during the middle of the year. We reported earlier that we intended to expand our R&D team to capture the increasing business opportunities.

The total value of our 2013 annual bonus compensation is approximately $13.0 million including non-cash RSUs and cash payouts, out of which $7.8 million was paid and expensed in the third quarter. The remainder will be vested equally at the first, second and third anniversaries of the grant date.

GAAP operating income for the third quarter of 2013 was $14.4 million, or 7.5% of sales, up $1.3 million or 9.7%, compared to the same period last year and down $9.3 million or 39.2% from the previous quarter. The sequential decline was mainly a result of lower revenues and the expense from the $7.8 million 2013 RSU charge in the third quarter which accounted for 4.0% of sales. In comparison, non-GAAP operating income for the third quarter of 2013 was $23.6 million, or 12.2% of sales, up $3.1 million or 15.1%, compared to the same period last year and down $1.3 million or 5.4% from the previous quarter.

Non-GAAP net income in the third quarter was $19.3 million, or 11.3 cents per diluted ADS, up from $16.5 million, or 9.7 cents per diluted ADS, for the same period last year, and down from $20.1 million, or 11.7 cents, per diluted ADS, in the previous quarter. Non-GAAP net income represents a growth of 17.2% year over year and a decline of 3.8% as compared to the previous quarter. Non-GAAP EPS per diluted ADS grew 16.0% from the same period last year and declined 3.6% over the previous quarter. The sequential decline was a result of lower revenues in the third quarter.

Our cash, cash equivalents and marketable securities were $133.9 million at the end of September, up from $89.0 million at the same time last year and slightly down from $147.1 million a quarter ago. We made a cash payment for RSU of $7.8 million and a cash dividend of $42.4 million during the quarter. On top of the above cash position, restricted cash was $115.0 million at the end of the quarter, up from $73 million during the same period last year and up from $74.1 million at the end of last quarter. The restricted cash is mainly used to guarantee the company's short term loan for the same amount. We continue to maintain a very strong balance sheet with no debt.

Inventories as of September 30, 2013 were $159.6 million, up from $128.3 million a year ago and up from $142.9 million a quarter ago. The higher inventory was a result of stock build-up due to temporary business slowdown in the third quarter and the expected increase of smartphone driver shipment during the fourth quarter. Accounts receivable at the end of September were $202.2 million as compared to $218.3 million a year ago and $219.2 million last quarter. DSO was 96 days at end of September, 2013, as compared to 109 days a year ago and 104 days at end of the last quarter.

Net cash inflow from operating activities for the third quarter was $27.4 million as compared to cash outflow of $7.1 million for the third quarter of 2012 and cash outflow of $2.7 million for the second quarter of 2013.

Capital expenditures were $3.8 million in the third quarter versus $1.7 million a year ago and $6.0 million last quarter, bringing the total capital expenditures to $14.5 million through the first three quarters of 2013. The capital expenditure in the third quarter consisted mainly of purchases of in-house testers for driver IC, IT store equipments and LCOS and MEMS manufacturing equipments. While we outsource the majority of our driver IC testing, we have always maintained a certain level of in-house testing facility for the purpose of both R&D and mass production. Total capital expenditures for the first nine months of 2013 were $14.5 million versus $4.4 million a year ago.

As of September 30, 2013, Himax had 170.5 million ADS outstanding, compared to 169.6 million at the end of last quarter.

Before I turn the floor back to Jordan, let me quickly summarize our financial results for the nine months ended September 30, 2013.

Revenues were $575.5 million and gross profits were $142.8 million, representing growth of 5.3% and 13.2% over the first nine months of 2012 respectively. Our gross margin increased to 24.8%, a 170 basis point improvement from the same period last year.

Our GAAP operating expenses were $87.9 million for the first nine months of 2013, up $9.6 million and 12.2% for the same period in 2012. The increase was mainly resulted from higher expenses related to salaries for R&D new hires, salary increases and product developments.

GAAP operating income of $54.9 million represented a $7.1 million and 14.9% increase from the first nine months of 2012. The improvement in operating income was mainly the result of higher sales and gross margin expansion which was however somewhat offset by higher R&D expenses. In comparison, non-GAAP operating income was $66.4 million, or 11.5% of sales, up $9.2 million or 16.0%, compared to the first nine months of 2012.

GAAP net income for the first nine months of 2013 was $45.7 million, or 26.6 cents per diluted ADS, up from $36.8 million, or 21.6 cents per diluted ADS, for the same period last year. GAAP net income for the first nine months of 2013 grew 24.0% over the same period last year. GAAP EPS per diluted ADS for the first nine months of 2013 grew 23.4% from the same period last year.

Non-GAAP net income for the first nine months of 2013 was $54.4 million, or 31.7 cents per diluted ADS, up from $44.6 million, or 26.1 cents per diluted ADS, for the same period last year. Non-GAAP net income for the first nine months of 2013 grew 22.1% over the same period last year. Non-GAAP EPS per diluted ADS for the first nine months of 2013 grew 21.6% from the same period last year.

Net cash inflow from operating activities for the first nine months of 2013 was $54.2 million as compared to cash outflows of $0.3 million for the same period of 2012.

I will now turn the floor back to Jordan.

Q4 2013 Outlook

Mr. Jordan Wu: Thank you, Jackie. Our operating environment in the third quarter was marked by low visibility as the global economy remained soft and concerns for excessive inventory loomed over China's Tier 2, or what is also known as the "white-box" market. We therefore provided conservative guidance and are pleased that our revenues came in at the higher end of our guided range and gross margin exceeded the guidance.

In line with poor overall market sentiment for large panel demands, our large panel drivers in Q4 are expected to decline by double-digit, dragging down our overall fourth quarter growth. The weakness is a reflection of the continued slump of global demand for TVs, laptops and monitors. This was made worse by the termination of China's TV subsidy program in May. However, we do see long-term growth prospect in our large panel driver business. China is the world's largest TV market and the country has continued to grow its large panel capacity. In addition, consumers' TV demand is trending towards larger screen sizes and higher resolution. We also believe our efforts to penetrate into other non-China large panel customers will start to bring in meaningful results next year.

The small and medium-sized panel driver business remains a focus in our business. We are in a strong position in the smartphone sector with leading technologies, competitive products and solid end-customer base including first-tier international and Chinese end-user brands as well as the fast growing China white-box market. The growth momentum of our smartphone driver was dampened by the slowdown in the China market in early third quarter, but it is expected to recover during the fourth quarter due to increasing demands from our Korean and Chinese end-customers. In addition to volume growth, we continue to benefit from the industry trend toward higher resolution displays as mentioned in our past few earnings calls. We expect the smartphone sector to experience double digit growth in Q4 and the growth momentum to continue into next year, driven by strong demand from both international and China markets.

Among small and medium-sized panel applications, we also see tablet and automotive displays growing strongly so far this year. We enjoy a solid customer base in both markets. In tablet market, we have a thorough coverage in both international brands and the low-cost white-box market. We also command a leading market share in displays used in automotives. We expect the revenues from these two applications to remain flat sequentially in the fourth quarter. With further design-wins in the pipeline, we expect these applications to continue to contribute to our long-term growth.

Our non-driver category provides the most exciting long-term growth prospect. Non-driver businesses showed solid growth in Q3, accounting for 18.0% of total revenues, a record high in our history. Compared to the same period last year, it also grew 30.5%. I will highlight some of the non-driver areas below.

CMOS image sensor product line has been our single largest non-driver segment since Q2. The third quarter sales were supported by shipments of our 1 mega-pixel sensor for tier-one laptop customers and growing demands for our 2 and 5 mega-pixel sensors from smartphone and tablet makers. We will launch a new 8 mega-pixel sensor this quarter targeting higher-end smartphone and tablet markets. This new 8 mega-pixel sensor provides a competitive solution featuring ultra-low power consumption, smaller footprint, high sensitivity and an embedded high dynamic range engine. The release of this product positions us as the pioneer of high-end image sensors among Taiwanese and Chinese suppliers, advancing Himax to one of the leaders in the world market.

We started to introduce our multi-finger capacitive touch controllers to China smartphone market from Q3 last year by trying to leverage the experience we gained from serving international smartphone brand customer. However, our touch panel controllers encountered some difficulties there in the early stage as there are differences in the know-how required for the China market against that for international brands. Having been through a few quarters of learning curve, we resumed growth of this product line during the third quarter as we made new shipments to handset customers in China and a leading brand customer for several of their tablet projects. We expect to gain more new design-wins and break into a new leading smartphone brand customer in the fourth quarter. By expanding our customer base in smartphone and tablet applications and also our product offering to Win 8 laptop application, we believe touch panel controller is a long-term growth engine for Himax.

Leveraging the track record of our successful execution in the ASIC projects awarded last year, we have won new projects from both existing and new customers this year; all of them are leading international brands. We also started to make shipment for one of the ASICs we developed for a customer back in 2012. We expect to see more such shipments starting next year.

Now a quick update on our LCOS business. Google's investment in Himax Display, our LCOS subsidiary, which we announced on July 22nd, 2013, was successfully closed in October. Google now becomes a 6.3% shareholder of Himax Display. On the business front, we had new design-wins from multiple top-tier customers for new head-mounted display projects in the third quarter 2013. We also continued to make early stage shipment for certain customers' pilot run production. In addition to head-mounted-displays, we are also working with numerous partners to create products targeting a wide range of applications such as pico-projector, head-up-display for automotive application, and projector for toy application. We will continue to execute our strategy to maintain global leadership in microdisplay technology by working with multiple customers for multiple applications. We are excited about the growth opportunities to develop these new applications with our partners and customers. We believe our LCOS microdisplay business remains one of the most important areas for Himax's future growth.

Q4 Guidance…..

While the fourth quarter is traditionally a low season, we expect revenues of this year's Q4 to remain around flat or be down slightly compared to the third quarter of 2013. Gross margin is expected to be around flat to slightly down from the previous quarter depending upon the final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 7.5 to 9.5 cents per diluted ADS based on 172.1 million outstanding ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 8.1 to 10.1 cents per diluted ADS based on 172.1 million outstanding ADSs.

We would like to highlight a couple items related to the expenses for the quarter. We have pointed out in the last few earnings calls that, in order to capture the increasing business opportunities, our expenses for this year would increase from those of the past few years, when we managed to maintain our expenses at a rather stable level. This year’s expense increase was due mainly to the expansion of R&D teams and the higher development costs associated with the larger team. We expect the fourth quarter operating expenses to be the highest among all quarters of the year as certain new high-end product tape-outs are taking place within the quarter in both driver and non-driver areas.

Our fourth quarter EPS guidance has taken into account an additional $1 million, or 0.6 cent per diluted ADS, of income tax charge to reflect the NT dollar depreciation against the US dollar so far this year. The adjusted amount is made based on today’s exchange rate but the final outcome will depend on the actual exchange rate at the end of the year. While the exchange rate has little effect on our margins and operating results as we keep our books in US dollar which is also our functional currency in literally all of our buy and sale activities, it does have some impact on our effective US GAAP income tax rate because we pay the super majority of our taxes in Taiwan where the tax authorities determine our taxation based on our NT dollar dominated ROC GAAP accounting. In general, as NT dollar depreciates against US dollar, as is the case so far this year, we are worse off in our US GAAP effective tax rate and vice versa.

Thank you for your interest in Himax. We appreciate your joining today's call. We are now ready to take your questions.

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

Thank you everyone for taking the time to join today's call. We look forward to talking with you again at our upcoming earnings call in early February. As many of you know, we recently wrapped up a multi-week non-deal road show in the US. We appreciated the time we had with many of you face to face. Jackie Chang, our CFO, will be on non-deal road shows in Asia and in the U.S. and also attend investor conferences starting mid-November. We will announce these as they come about. Please contact our IR department and/or John Mattio at MZ Group if you are interested in meeting with us in person. Thanks again and have a nice day.